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SUBJECT: GOF MOVES BEYOND SOCIAL UNREST TO LABOR AND PENSION REFORM  
IN 2010

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¶1. (SBU) Summary: After a spring of layoffs, "boss-nappings" and talk of social revolution, the GOF enters the annual vacation period having weathered what it hopes is the worst of the economic crisis. President Sarkozy by most accounts has successfully managed (some would say co-opted) relations with the unions with a combination of carrot and stick. Sarkozy's social affairs advisor told us recently he foresees quiescent relations with the "social partners," at least until November - December. Sarkozy has deflected public anger over the crisis by recasting himself as a "protective leader," jawboning business on keeping jobs in France, espousing the benefits of the French social model, handing key issues to the "social partners" for negotiation, and, to some extent, handing over cash. End Summary.

The President's response to unrest with "social measures"...

¶2. (SBU) In an early July meeting President Sarkozy's Social Affairs Advisor Raymond Soubie told us the GOF was relatively sanguine about the government's political handling of fallout from the economic crisis. After a spring of discontent, which included warnings from former Prime Minister de Villepin that France could be on the verge of a revolution, the air largely went out of various nascent protest movements. Soubie credited measures taken by the government, including a 3-billion-euro social investment fund to finance employment and training measures (a trade union initiative approved during a social summit with trade union and employers' representatives) and an additional 2.6 billion euros to be disbursed to workers for partial unemployment, young job seekers and low income households. Soubie told us he expects calm to prevail well into the fall, though November - December could prove challenging. It will take 1.5 - 1.7% annual GDP growth to turn the corner on unemployment, and current projections show flat growth through the fourth quarter, he said.

¶3. (SBU) In April, he unveiled a 1.3 billion-euro youth employment scheme to counter soaring unemployment among people under 25. He explained that his scheme intended to help 500,000 young people find a job and training by June 2010. He revealed that one of his priorities would be to invest in "alternative training," whereby individuals study while also gaining experience in a work environment. Soubie mentioned that Sarkozy's youth plan is expected to benefit some 500,000 young unemployed. It will be financed essentially by the State via the Social Investment Fund.

¶4. (U) The president further sought to deflect public anger over generous severance packages to top banking executives by initiating a decree on March 31 prohibiting the payment of stock options and bonuses in businesses receiving exceptional crisis-related State aid. The decree also sets guidelines governing the setting of executive pay in public enterprises and businesses in which the State has a majority stake. Finally, the GOF set out a requirement to establish an ethics committee composed of people of irreproachable character to ensure the necessary regulation on remuneration in private-sector companies. Prime Minister Fillon noted that these measures placed France very far ahead of all the

other European countries.

... renewed dialog with trade unions...

15. (SBU) In addition to his policies towards "the most vulnerable citizens, those suffering the most," Sarkozy allowed the unions to spearhead protest against his stimulus package in the hope that it would lose steam instead of spilling over into wider unrest. "With their regular nationwide protests- five since the beginning of the year -- trade unions successfully channeled the discontent of the French," Social affairs analyst Guy Roux recently told us last May. The social affairs advisor Soubie concurred, adding that the president and trade unions shared the same vested interest in "keeping extremes at bay." Extreme Leftist union SUD had emerged earlier this year as the major perpetrator of anti-government protests and traditional trade unions feared that it would swell its membership at their expense. The President, for his part, was concerned that the newly formed anti-capitalist party NPA could become a major opposition party as a result of the June European parliamentary elections.

16. (SBU) This unexpected strategic alliance between the President and trade unions also proved useful in overcoming a deteriorating social climate in France, according to Soubie. Prior to the crisis, Sarkozy's reform in trade union representation (now directly linked to results of company-level elections), together with the introduction of the minimum level of service in the event of a strike in rail/mass transit or child care had done much to harden the "social debate" in France.

... and balancing the French Social Model with fundamental reforms

17. (SBU) With the trade unions on board, the President is

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confident that he can launch another round of reforms, While focusing on "future-oriented spending," Sarkozy also proposes to continue reforming France's social model, through employment reform and further pension reform. The GOF intends to invest in youth and "senior" employment. "I say this is better than subsidizing inactivity by condemning the unemployed to handouts," he noted. 2010 will also be a crucial year for continued pension reform, Soubie underscored. "Everything will be laid out on the table for the GOF, trade unions and MEDEF to discuss: from retirement age to the length of the period of contribution to the French public retirement scheme," he explained. Starting in 2010, the GOF will impose financial penalties on companies with between 50 and 300 employees not employing workers over 60 years of age, and it has opened the debate on increasing beyond 41 the number of years required for a full pension. "We will continue to tighten the screws" after the crisis," Soubie remarked.

110. (SBU) Comment: To achieve these and other reforms, Sarkozy will need to strike the right balance between maintaining France's social model while "giving it back every chance of success" to keep the unions on board in spite of factory closures and rising unemployment. End of Comment.

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